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SIPDIS

SENSITIVE

TREASURY FOR CURRY, MEYER, GREWE
FOR SECRETARY SNOW FROM AMBASSADOR KENNY

E.O. 12958: N/A

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SUBJECT: SCENESETTER FOR TREASURY SECRETARY SNOW'S NOVEMBER
14-15 VISIT TO IRELAND

11. (SBU) Summary: The Irish Government and Embassy Dublin warmly welcome your upcoming visit to Dublin. Past and present Irish policy-makers look forward to substantive discussion with you on the dramatic transformation of Ireland's economy. I am planning a dinner in your honor that will include EU Commissioner-designate and former Irish Finance Minister Charlie McCreevy. You will also meet with Prime Minister Bertie Ahern, Finance Minister Brian Cowen, and other "architects" of the Celtic Tiger economy. Besides explaining Ireland's economic achievements, these leaders will likely question you about the recent U.S. elections, particularly the implications for Europe. Ireland sees itself as a bridge between "Boston and Berlin," and your interlocutors will seek the second Bush Administration's views on strengthening the trans-Atlantic relationship. End summary.

Ireland -- A Confident EU Member State

12. (SBU) Ireland's economic and diplomatic successes have boosted the country's standing in the EU and have given Irish citizens unprecedented national confidence. In less than a generation, Ireland has grown from one of the poorest EU Member States to one of the richest (in GDP per capita), largely on the strength of government policies that espoused open trade and investment, low corporate taxes, good labor relations, low government debt, and prudent use of EU support funds. Although the Celtic Tiger stumbled somewhat with the post-9/11 global slowdown, a surge in housing construction has Ireland on track to achieve roughly 5% annual GDP growth in 2004, the highest in the EU. Moreover, Ireland won high marks in Europe for its recent EU presidency, which saw the accession of ten new EU member states, the successful negotiation of the EU Constitutional Treaty, and the launch of the U.S.-EU Trans-Atlantic Economic Partnership. These accomplishments have contributed to Ireland's self-image as an effective broker within the EU and a role model for new EU Member States.

Links with the U.S.

13. (SBU) While Ireland is a player in the EU and continues to benefit from EU markets and support funds, Irish leaders attach equal importance to relations with the United States. Beyond long-standing cultural ties, U.S. trade and investment have been the twin engines of the Celtic Tiger economy, as you will likely hear in your discussion with the American Chamber of Commerce. There are roughly 570 U.S. firms operating in Ireland, employing over 90,000 people and accounting for a third of Ireland's annual exports. These firms include most major biotechnology, IT, and financial services companies, which use Ireland as a gateway to EU markets. Last year, new U.S. investment in Ireland reached \$9 billion, compared with \$3.8 billion in China. The central role that U.S. businesses have played in Ireland's economic transformation, however, is a story not often told by the Irish media, which tend to take a negative view of the United States, particularly our efforts in Iraq.

Political Background

14. (SBU) Ironically, the party that has led Ireland through most of the Celtic Tiger era, Fianna Fail, has seen a recent erosion in its political support. In the June 2004 local and European Parliament elections, Fianna Fail lost a number of seats to opposition parties, led by Fine Gael and the upstart Sinn Fein. Commentators attributed Fianna Fail's poor showing to the electorate's sense that not all segments of society have shared the benefits of the Celtic Tiger economy, as reflected in growing crime rates and other social problems. In a bid to re-energize the party and government ahead of the 2007 general elections, Prime Minister (Taoiseach) Bertie Ahern re-shuffled his cabinet in late

September. The move presages an effort by Fianna Fail to recast its image as a party more attuned to social concerns.

The Government Budget

15. (SBU) Estimates for the 2005 government budget, to be released on November 18, will set forth Fianna Fail's economic priorities in its bid to rebuild political support. Although a budget deficit was originally forecast for 2004, increased revenues tied to economic growth and one-off tax collections on off-shore bank accounts will yield a year-end budget surplus of 0.3 percent of GDP. Some ruling party members have pressed new Finance Minister Brian Cowen to use this unexpected windfall to address hot-button social issues, including Ireland's dysfunctional health care system and outdated transportation infrastructure. The Irish Central Bank and most economists, however, have cautioned against steep increases in government spending that could fuel inflation, particularly with robust GDP growth predicted for 2005. In recent public comments, Minister Cowen has indicated that the budget will offer tax relief for lower income groups, but will avoid inflationary pressures that could raise wage demands and erode Ireland's competitiveness.

Competitiveness -- The Central Focus

16. (SBU) Maintaining Ireland's economic competitiveness is increasingly the focus of the Government as it attempts to safeguard the prosperity achieved during the Celtic Tiger period. Although inflation in 2004 has converged toward the EU average of roughly 2%, EU studies indicate that Ireland is now the most expensive country in Europe. Ireland's 12.5 percent corporate tax rate remains a powerful draw for foreign direct investment. Over the longer term, though, Ireland will face challenges in competing with alternative FDI destinations such as China, India, and the EU accession states, which boast educated, low-wage workers and opportunities for low-cost manufacturing. Several government-commissioned task forces have advocated a strategy whereby Ireland would move increasingly out of simple manufacturing operations and into innovative, higher-value goods and services. This strategy will require an education system that can produce graduates with skills in technology and physical sciences to support a knowledge-based economy. At Dublin City University, you will be able to speak with faculty and students about the role of academia in sustaining Ireland's economic success.

Northern Ireland Negotiations

17. (SBU) Negotiations on a final settlement for Northern Ireland are likely to intensify during the week of your visit. The British and Irish Governments are preparing a proposal for Northern Ireland's unionist and republican political parties on a settlement that would restore Northern political institutions over the coming months. This proposal will likely build upon progress that was achieved in the September Leeds Castle talks, where Sinn Fein signaled the IRA's willingness to cease paramilitary activity and decommission weapons as part of a final deal. Northern Ireland is the fastest growing region in the UK, and a political settlement would help to accelerate growing inter-Ireland trade and investment.

KENNY